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FISCAL IMPACT STATEMENT

LS 7456

BILL NUMBER: SB 552

NOTE PREPARED: Apr 1, 2013

BILL AMENDED: Apr 1, 2013

SUBJECT: Public Deposits.

FIRST AUTHOR: Sen. Holdman

FIRST SPONSOR: Rep. Burton

BILL STATUS: CR Adopted 2nd House

FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: (Amended) This bill has the following provisions:

It repeals and removes unused provisions concerning a loan made by the State Board of Finance and purchased by the Board for Depositories for economic development projects.

The bill requires Budget Committee review before money in the PDIF may be used for a purpose other than paying expenses for the administration of the fund, to invest, reinvest, and exchange specified investments, paying allowable operational expenses, paying claims on insured public deposits, and making deposits of uninvested funds.

The bill provides for a payback of the \$50 M loan made to the state General Fund from the PDIF. It appropriates \$50 M on July 1, 2013 from the state General Fund to the State Budget Agency (SBA) to make the loan payments before January 1, 2014.

The bill reduces the financial institutions franchise tax rate over four years, from 8.5% for taxable years beginning before January 1, 2014, to 6.5% for taxable years beginning on or after January 1, 2017.

Effective Date: July 1, 2013.

Summary of NET State Impacts: (Revised) A summary of impacts from provisions in the bill on state funds are specified in the table below.

Provision	FIT Rate Reduction	Appropriation to Repay PDIF Loan	Loan Repayment
Fund Affected	General Fund	General Fund	PDIF
FY 2013	Minimal	-	-
FY 2014	(\$2.4 M)	(\$50.0 M)	\$50.0 M
FY 2015	(\$7.1 M)	\$0	\$0
FY 2016	(\$11.8 M)	\$0	\$0
FY 2017	(\$16.5 M)	\$0	\$0
FY 2018	(\$18.8 M)	\$0	\$0
TOTAL	(\$56.6 M)	(\$50.0 M)	\$50.0 M

Explanation of State Expenditures: (Revised) *PDIF Loan Repayment:* The bill makes a \$50 M appropriation to the State Budget Agency (SBA) in FY 2014 to repay a \$50 M loan made from the Public Deposit Insurance Fund (PDIF) to the state General Fund in 2004. This would increase state General Fund expenditures by \$50 M in FY 2014.

An interest-free loan to the state General Fund was issued in 2004 from the PDIF. The maturity date of the loan has been extended by statute and the Board for Depositories to January 1, 2023.

Department of State Revenue (DOR): The DOR would incur some administrative expenses relating to the revision of tax forms, instructions, and computer programs to reflect the financial institutions tax (FIT) rate changes. The DOR's current level of resources should be sufficient to implement these changes.

Explanation of State Revenues: *Financial Institutions Tax (FIT) Rate Reduction:* The bill reduces the FIT rate from 8.5% to 6.5% over four years beginning in CY 2014. The table below summarizes the estimated annual revenue loss from the tax rate reductions.

Fiscal Year	Revenue Loss
2013	Minimal
2014	\$2.4 M
2015	\$7.1 M
2016	\$11.8 M
2017	\$16.5 M
2018	\$18.8 M

The revenue loss could begin in FY 2013 as some financial institutions reduce estimated tax payments. However, the impact in FY 2013 should be minimal since approximately 85% of the financial institutions paying roughly 96% of the tax liability are calendar year filers. The table below summarizes the phase-in of the FIT rate reduction.

Calendar Year	Tax Rate
2013	8.5%
2014	8.0%
2015	7.5%
2016	7.0%
2017 and after	6.5%

Background:

Financial Institutions Tax - Revenue from the FIT is distributed to local units and to the state General Fund. Local units are annually guaranteed revenue from the FIT. The amount guaranteed to a local unit is equal to the difference between: (1) the amount that was received by the taxing unit in 1989 under financial institutions taxes that were repealed and replaced by the FIT and (2) the amount received in the current year by the taxing unit from property taxes attributable to personal property of banks. FIT distributions to local units occur throughout the fiscal year until the guarantee is met. The local guarantee historically totals approximately \$45 M. The estimate of state revenue loss assumes the residual FIT revenue distributed to the state General Fund will total \$35 M annually, which is the historical average.

Once the rate reduction is fully phased in, annual FIT revenue could be at a level where in recessionary periods transfers from the state General Fund to local units might be required to pay the local guaranteed amounts. During recent economic downturns, FIT revenue has declined by an average of almost 21% from the historical average of about \$80 M per year. Once the rate reduction is fully phased in, it is estimated that annual revenue could potentially total about \$61.1 M. A cyclical revenue decline of 21% could potentially reduce this total down to about \$48.5 M, just above the amount required to pay the local guarantee.

Explanation of Local Expenditures:

Explanation of Local Revenues: *Financial Institutions Tax Rate Reduction:* [See *Explanation of State Revenues.*]

State Agencies Affected: Board for Depositories; Board of Finance; State Budget Agency; State Department of Revenue.

Local Agencies Affected:

Information Sources: Auditor of State, *2012 Comprehensive Annual Financial Report*, accessed at <http://www.in.gov/auditor/2530.htm>; *Indiana Board for Depositories Financial Statements*, Years Ended June 30, 2012 and 2011 and Years Ended June 30, 2011 and 2010; Indiana Board for Depositories, *Semi-Annual Report to the State Budget Committee*, December 4, 2012 and June 4, 2012 accessed at <http://www.in.gov/tos/deposit/2374.htm> . OFMA Income Tax databases, 2008.

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